

SUPPORTING STATEMENT

Internal Revenue Service (IRS)

Adjustments to Basis of Stock and Indebtedness to Shareholders of S Corporations and
Treatment of Distributions by S Corporations to Shareholders
OMB Control Number 1545-1139

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

Internal Revenue Code (IRC) Section 1367 addresses the rules, requirements, and conditions to adjust the basis of a shareholder's stock including but not limited to both increasing and decreasing the basis.

IRC Section 1368 provides guidance to how the distribution of property made by an S corporation will impact the taxes of its shareholders.

Treasury Regulations Section 1.1368-1 provides rules for distributions made by an S corporation with respect to its stock which would be subject to other rules of the IRC that characterize a distribution as a dividend. The regulations allow S corporations to make certain elections relating to the distributions by attaching a statement to their tax return.

2. USE OF DATA

The IRS uses the information to determine the tax treatment of certain distributions by S corporations.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

The IRS has enabled the ability to attach statements to electronically filed tax returns.

4. EFFORTS TO IDENTIFY DUPLICATION

The information obtained through this collection is unique and is not already available for use or adaptation from another source.

5. METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES

The collection of information requirement will not have a significant economic impact on a substantial number of small entities.

6. CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS OR POLICY ACTIVITIES

Elections are voluntary, made at the S corporation's discretion. A less frequent collection could adversely affect the IRS to effectiveness verify that the S corporation's election has been made in accordance with the adjustments to basis of stock of shareholders and the distributions sections of IRC section 1368, which would hinder the IRS from meeting its mission.

7. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)

There are no special circumstances requiring data collection to be inconsistent with guidelines in 5 C.F.R 1320.5(d)(2).

8. CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS

The IRS received no comments in response to the *Federal Register* notice dated March 25, 2024 (89 FR 20762).

9. EXPLANATION OF DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS

No payment or gift has been provided to any respondents.

10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

Generally, tax returns and tax return information are confidential as required by 26 U.S.C. 6103.

11. JUSTIFICATION OF SENSITIVE QUESTIONS

A privacy impact assessment (PIA) has been conducted for information collected under this request as part of the "Business Master file (BMF)" and a Privacy Act System of Records notice (SORN) has been issued for these systems under IRS 22.062 - Electronic Filing Records; IRS 24.030 - Customer Account Data Engine (CADE) Individual Master File; IRS 24.046 - CADE Business Master File (BMF); IRS 34.037 - IRS Audit Trail and Security Records System. The Internal Revenue Service PIA's can be found at <https://www.irs.gov/uac/Privacy-Impact-Assessments-PIA>.

Title 26 U.S.C. 6109 requires inclusion of identifying numbers in returns, statements, or other documents for securing proper identification of persons required to make such

returns, statements, or documents and is the authority for social security numbers (SSNs) in IRS systems.

1. ESTIMATED BURDEN OF INFORMATION COLLECTION

Section 1.1368-1(f)(2) allows an S corporation to elect to distribute earnings and profits before the accumulated adjustments account. We estimate that approximately 1,000 S corporations will make this election and that each election will take .1 hour to complete. Total burden: **100** hours.

Section 1.1368-1(f)(3) allows an S corporation to elect to distribute earnings and profits before the accumulated adjustments account by utilizing a deemed dividend. We estimate that approximately 750 S corporations will make the election and that each election will take .1 hour to complete. Total burden: **75** hours.

Section 1.1368-1(g)(2)(i) allows an S corporation to elect to treat the corporation’s taxable year as if it consisted of separate taxable years if there is a qualifying disposition. A qualifying disposition is any disposition of 20 percent or more of the stock of the S corporation in one or more transactions during any thirty-day period during the S corporation’s taxable year. We estimate that approximately 250 S corporations will make this election and each election will take .1 hour to complete. Total burden: **25** hours.

The total burden for these information collections is estimated to be 200 hours.

Authority	Description	# of Respondents	# Responses per Respondent	Annual Responses	Hours per Response	Total Burden
IRC § 1368	1.1368-1(f)(2)	1,000	1	1,000	.1	100
IRC § 1368	1.1368-1(f)(3)	750	1	750	.1	75
IRC § 1368	1.1368-1(g)(2)(i)	250	1	250	.1	25
Totals		2,000		2,000		200

The following regulations impose no additional burden. Please continue to assign OMB number 1545-1139 to these regulations.

1.1368-1(f)-(g)	1.1367-1
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1. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

There are no start-up or maintenance costs for this collection. The collection does not require respondents to obtain specialized equipment or professional services.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

There are no annualized costs to the federal government outside of regular agency activities such as taxpayer assistance and enforcement.

15. REASONS FOR CHANGE IN BURDEN

The burden previously reported for Treasury Decision (TD) 9428 was removed. This burden was calculated and reported in the proposed rules (REG-144859-04). However, the information collection was not implemented in the final rule (TD 9428). This reduces the number of responses by 250 and the burden hours by 250 annually due to Adjustment in Estimate.

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

There are no plans for tabulation, statistical analysis and publication.

17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE

The IRS believes that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the regulation expires as of the expiration date. Taxpayers are not likely to be aware that the Service intends to request renewal of the OMB approval and obtain a new expiration date before the old one expires.

18. EXCEPTIONS TO THE CERTIFICATION STATEMENT

There are no exceptions to the certification statement.